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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 403, U.S. CUSTOMHOUSE, 610 SOUTH CANAL STREET
CHICAGO, ILLINOIS 60607

NOV 16 1972

Commander
U. S. Army Munitions Command
Joliet, Illinois 60436

Dear Sir:

We recently completed a limited survey to determine whether the U. S. Army Munitions Command (MUCOM) provided contractors with funds for the acquisition of industrial plant equipment through negotiated supply contracts. Our survey included a limited review of selected negotiated contracts awarded by MUCOM during fiscal year 1972 and discussions with responsible procurement officials.

We identified two letter contracts, awarded to Marathon Le Tourneau and Avco Corporation for production of bomb bodies and booster adapters (see appendix), where the respective contractors' proposed contract prices, totaling about \$7.4 million, included estimated costs of about \$1.5 million for acquisition of plant equipment and reactivation of Government-owned production facilities. Estimated add-ons for General and Administrative Expense (G&A) and profit applicable to these costs are shown in the appendix.

At the time of our survey, the letter contracts awarded to Marathon Le Tourneau and Avco Corporation were scheduled for definitization in November 1972. The contractors' plants are commercially owned; however, the plant equipment for production of the bomb bodies and booster adapters is Government-owned. In this regard, a basic facilities contract is in effect on a no-fee basis with Avco. We were told that a facilities contract was in process of award to Marathon Le Tourneau relative to the existing Government-owned production facilities at the plant.

We believe that the cost of the production equipment, and reactivation work included in the proposals for definitizing contracts DAAA09-72-C-0330 and -0339 should be excluded from the production contracts. By using no-fee facilities contracts for this effort, cost savings will accrue to the Government to the extent of the contractors' profit on the proposed equipment costs.

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We discussed this matter with MUCOM officials on October 4, 1972. We were told that our findings would be considered and a decision would be made as to whether the equipment and reactivation costs would be included in the definitized production contracts or the respective facilities contracts.

We would appreciate being informed of the actions taken on this matter.

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Copies of this letter are being sent to the Secretary of the Army and the Commanding General, U. S. Army Materiel Command.

Sincerely yours,

M. R. Wolfson
M. R. Wolfson
Regional Manager

Enclosure

LETTER CONTRACTS WHICH
INCLUDE EQUIPMENT AND REACTIVATION COSTS

Letter contract number ^a	Date	Contractor	Item	Estimated contract amount	Estimated equipment and reactivation costs		
					Basic costs ^b	G&A	Add-ons Profit Total
DAAA09-72-C	6-7-72	Marathon Le Tourneau	ML17A3 Bomb body	\$5,733,000	\$1,294,505	\$73,787	\$203,496
-0330							\$277,283
-0339	6-26-72	Avco Corporation	M147 and M148 adapter boosters	1,630,720	160,751	23,470	18,422
							41,892
Totals				\$7,363,720	\$1,455,256	\$97,257	\$221,918
							\$319,175

^a Definitization scheduled for November 1972.

^b Excludes \$430,745 of special tooling in contract -0330 and \$71,765 of special tooling in contract -0339.